



NORFOLK STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2020

Auditor of Public Accounts
Staci A. Henshaw, CPA

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Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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February 17, 2021

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

Dr. Javaune Adams-Gaston
President, Norfolk State University

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of **Norfolk State University** (University), solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.17.1, for the year ended June 30, 2020. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

Procedures described below were limited to material items. For the purpose of this report, and as defined in the agreed-upon procedures, items are considered material if they exceed four percent of total revenues or total expenses, as applicable. The procedures that we performed and our findings are as follows:

Internal Controls

1. We reviewed the relationship of internal control over intercollegiate athletics programs to internal control reviewed in connection with our audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics, which were not reviewed in connection with our audit of the University's financial statements.
2. Intercollegiate Athletics department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, protection of records and equipment, and controls regarding information systems with the information technology department.
3. Intercollegiate Athletics department management provided us with their process for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the University's intercollegiate athletics programs. We tested these procedures as noted below.

Affiliated and Outside Organizations

4. Intercollegiate Athletics department management identified all related affiliated and outside organizations. The audit of the financial statements of the Norfolk State University Athletic Foundation was not complete at the time of this engagement and as such, we were unable to review the results of the audit.
5. Intercollegiate Athletics department management prepared and provided to us a summary of revenues and expenses for or on behalf of the University's intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

6. Intercollegiate Athletics department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2020, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics department's accounts in the accounting records. Certain adjustments to the Schedule were necessary to conform to NCAA reporting guidance. We discussed the nature of adjusting journal entries with management and are satisfied that the adjustments are appropriate.
7. We compared each major revenue and expense account over ten percent of total revenues or total expenses, respectively, to prior period amounts and budget estimates. Variances exceeding ten percent of prior period amounts or budget estimates are explained below:

Line Item	Explanation
Student Fees	Student fees increased by \$1,441,677 or 20 percent over the prior year. The increase is mainly attributable to an increase in the annual student athletic fee and increases in student enrollment. Additionally, it was determined that in the prior year, fees earmarked for the payment of athletic-related debt service were improperly included in the Indirect institutional support-athletic facilities debt service, lease and rental fees line item and have been correctly reported in the Student fees revenue line item for fiscal year 2020.
Direct Institutional Support	Direct institutional support decreased by \$2,168,760 or 60 percent since the prior year due to increases in other revenue sources, as well as a decrease in expenses as a result of COVID-19. Primarily, the reversal of indirect cost charges to auxiliary units resulted in less required direct institutional support.
Athletic Administration Revenue: Athletics Fee (Budget)	Athletics fee revenue exceeded the budget by approximately \$922,000 or 13 percent. As noted above, there was an increase in the athletics fee coupled with an increase in student enrollment which caused actual revenues to exceed budgeted revenues.
Athletics Facilities Maintenance: Non-Personnel Service Expenditure Pool (Budget)	Athletics facilities maintenance non-personnel service expenditures exceeded the budget by approximately \$702,000 or 97 percent. This variance is attributable to an increase in non-recurring expenditures such as technology infrastructure upgrades and the purchase of facility management equipment due to changes in contractual services for grounds maintenance. These asset additions are included in total athletics-related capital expenditures in the Other Reporting Items section of the Schedule. Additionally, non-recurring expenditures included contracting with a third-party agency to provide event and game operations staff.
Football: Non-Personnel Service Expenditure Pool (Budget)	Intercollegiate Athletics exceeded the non-personnel service expense budget by approximately \$185,000 or ten percent. This variance is attributable to expenses incurred for a charter flight to Montana State University and an increase in Mid-Eastern Athletic Conference officials in order to meet new regulatory guidelines.

Revenues

8. We obtained the amount of ticket sales revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
9. We obtained documentation of the institution's methodology for allocating student fees to intercollegiate athletics programs. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be substantially in agreement with minor differences attributed to the methodology used for projecting student fee revenue. We noted \$419,872 in student fees earmarked for athletic debt service were incorrectly included in the indirect institutional support-athletic facilities debt service, lease and rental fees line item. Following reclassification to the student fees line item, we believe this line item to be appropriately stated.
10. We compared amounts reported in the Schedule for direct institutional support to corroborative supporting documentation and noted them to be substantially in agreement.
11. Chapter 1289 of 2020 Virginia Acts of Assembly § 3-4.01 allowed institutions to waive recovering indirect cost from auxiliary enterprises, including athletics, during fiscal year 2020 as a response to the significant financial impact on auxiliary enterprise programs caused by the COVID-19 pandemic. As the Schedule should reflect the full cost of athletics, an adjustment was made to include indirect institutional support for the indirect cost charges waived by the institution. Consistent with the NCAA agreed-upon procedures, a corresponding expense must be recorded for indirect institutional support received. To ensure consistency with other public institutions of higher education, the institution recorded the corresponding expense in the indirect cost paid to the institution by athletics line item. We compared amounts reported in the Schedule for indirect institutional support to cost allocation details and other corroborative supporting documentation and noted them to be substantially in agreement. Following revision to include the waived indirect costs in the Indirect institutional support revenue and Indirect cost paid to the institution by athletics expense line items, we found all amounts to be properly recorded in the Schedule.
12. Intercollegiate Athletics department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and agreements for all games and agreed amounts to proper posting in the accounting records and supporting documentation.
13. Intercollegiate Athletics department management provided us with a listing of all contributions of moneys, goods or services received directly by the intercollegiate athletics programs from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the

reporting period. Except for contributions received from the Norfolk State University Athletic Foundation, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for intercollegiate athletics programs. We reviewed contributions from the Norfolk State University Athletic Foundation, which exceeded ten percent of all contributions and agreed them to supporting documentation.

14. We obtained the amount of in-kind contribution revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
15. We obtained the amount of revenue from tournaments, conference distributions, and NCAA distributions reported in the Schedule. These amounts were deemed to be immaterial for detailed testing.
16. We obtained the amount of program, novelty, parking, and concession sales revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
17. Intercollegiate Athletics department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, licensing, advertisement, and sponsorships. We inspected the terms of the agreements and agreed amounts to proper posting in the accounting records and supporting documentation.
18. We obtained the amount of other operating revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

Expenses

19. Intercollegiate Athletics department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected ten percent of individual student-athletes across all sports and obtained the students' account detail from the institution's student information system. We agreed each student's information to the information reported in the NCAA Membership Financial Reporting System via Compliance Assistant. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system. We performed a check of selected students information as reported in the NCAA's Compliance Assistant software to ensure proper calculation of revenue distribution equivalencies.
20. We obtained the amount of game guarantee expense reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
21. Intercollegiate Athletics department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's

and women's basketball coaches, and compared amounts paid during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.

22. We obtained the intercollegiate athletics department's written recruiting and team travel policies from Intercollegiate Athletics department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.
23. We selected a sample of disbursements for team travel, sports equipment, uniforms, and supplies, direct overhead and administration, and other operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. After the reclassification of a transaction in the amount of \$125 originally classified as other operating expenses to team travel, we found all amounts to be properly recorded in the Schedule.
24. We obtained a listing of debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. This amount was deemed to be immaterial for detailed testing.
25. Chapter 1289 of 2020 Virginia Acts of Assembly § 3-4.01 allowed institutions to waive recovering indirect cost from auxiliary enterprises, including athletics, during fiscal year 2020 as a response to the significant financial impact on auxiliary enterprise programs caused by the COVID-19 pandemic. As the Schedule should reflect the full cost of athletics, an adjustment was made to include indirect institutional support for the indirect cost charges waived by the institution. Consistent with the NCAA agreed-upon procedures, a corresponding expense must be recorded for indirect institutional support received. To ensure consistency with other public institutions of higher education, the institution recorded the corresponding expense in the indirect cost paid to the institution by athletics line item. We obtained an understanding of the University's methodology for charging indirect cost to the athletic department. Following revision to include the waived indirect costs in the Indirect institutional support revenue and Indirect cost paid to the institution by athletics expense line items, we found all amounts to be properly recorded in the Schedule.

Other Reporting Items

26. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reported in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation.

27. We agreed total outstanding institutional debt to supporting debt schedules and the University's unaudited financial statements and general ledger, as the audited financial statements were not yet available.
28. We agreed the fair value of athletics dedicated endowments to supporting documentation provided by the University and the Norfolk State University Athletic Foundation's unaudited financial statements.
29. We agreed the fair value of institutional endowments to supporting documentation and the audited financial statements of the University's Foundation, as applicable.
30. We obtained a schedule of athletics related capital expenditures made during the period. We selected a sample of transactions to validate existence and accuracy of recording and recalculated totals.

Additional Procedures

31. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the Calculation of Revenue Distribution Equivalencies Report (CRDE) from the NCAA's Compliance Assistant software for the institution. We noted agreement of the sports reported.
32. We compared total current year Grants-in-Aid revenue distribution equivalencies to total prior year reported equivalencies per the Membership Financial Report submission and noted variations exceeding four percent when compared to prior year. An increase in the athletic student fee and student enrollment allowed for an increase in athletic scholarships awarded, resulting in a 5 percent increase in grants-in-aid revenue distribution equivalencies from the prior year.
33. We obtained the institution's Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the institution met the minimum requirements for number of contests and minimum number of participants as defined in NCAA Bylaw 20.9.6.3 or qualified for the extraordinary blanket waiver per NCAA guidance due to the COVID-19 pandemic. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.
34. We compared the current number of sports sponsored to the prior year total reported in the University's Membership Financial Report submission and noted no variations when compared to prior year.
35. We obtained a listing of student-athletes receiving Pell grant awards from the institution's student information system and agreed the total value of these Pell grants to the amount

reported in the NCAA Membership Financial Reporting System. We noted agreement of the amounts reported.

36. We compared the total number of Pell grant awards in the current year to the number reported in the prior year Membership Financial Report submission. We noted no variations greater than 20 grants when compared with the prior year.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of any financial statements of the intercollegiate athletics department of Norfolk State University in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of Norfolk State University or its Intercollegiate Athletics department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

JSS/clj

NORFOLK STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2020

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
<u>Operating revenues:</u>						
Ticket sales	\$ 443,356	\$ 61,035	\$ 20,627	\$ -	\$ 2,655	\$ 527,673
Student fees	-	-	-	-	8,612,120	8,612,120
Direct institutional support	10,430	1,016	3,390	-	1,406,749	1,421,585
Indirect institutional support	257,379	147,147	113,725	198,121	423,350	1,139,722
Guarantees	605,000	305,000	25,000	1,000	-	936,000
Contributions	19,092	59,900	17,518	51,252	98,175	245,937
In-Kind	159,876	93,235	58,135	35,679	16,997	363,922
NCAA distributions	21,348	5,500	5,500	9,545	450,241	492,134
Program, novelty, parking, and concession sales	987	423	-	-	65,587	66,997
Royalties, licensing, advertisement and sponsorships	153,167	73,833	73,833	69,333	159,426	529,592
Other operating revenue	37	-	-	1,900	10,986	12,923
Total operating revenues	1,670,672	747,089	317,728	366,830	11,246,286	14,348,605
<u>Operating expenses:</u>						
Athletic student aid	1,488,286	400,698	356,073	1,677,633	-	3,922,690
Guarantees	35,000	5,500	1,500	-	-	42,000
Coaching salaries, benefits, and bonuses paid by the University and related entities	806,988	476,162	372,370	640,166	33,528	2,329,214
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	13,574	1,016	3,390	-	1,972,015	1,989,995
Recruiting	6,356	10,251	14,505	2,180	9,529	42,821
Team travel	333,250	247,016	131,300	264,824	27,208	1,003,598
Sports equipment, uniforms, and supplies	143,557	75,981	37,100	128,721	293,031	678,390
Game expenses	143,730	88,139	95,550	57,815	75	385,309
Fundraising, marketing and promotion	169,337	61,548	60,734	69,333	95,107	456,059
Athletic facility debt service	-	-	-	-	419,872	419,872
Direct overhead and administrative expenses	5,281	2,620	2,704	5,146	634,662	650,413
Indirect cost paid to the institution by athletics	257,379	147,147	113,725	198,121	423,350	1,139,722
Medical expenses and insurance	-	-	-	-	377,404	377,404
Memberships and dues	-	590	90	1,107	46,356	48,143
Student-Athlete Meals (non-travel)	-	-	-	-	11,500	11,500
Other operating expenses	67,335	26,083	26,648	23,929	707,480	851,475
Total operating expenses	3,470,073	1,542,751	1,215,689	3,068,975	5,051,117	14,348,605
Excess (deficiency) of revenues over (under) expenses	\$ (1,799,401)	\$ (795,662)	\$ (897,961)	\$ (2,702,145)	\$ 6,195,169	\$ -
<u>Other Reporting Items:</u>						
Total athletics-related debt						\$ 1,787,762
Total institutional debt						\$ 93,373,190
Value of athletics-dedicated endowments						\$ 50,000
Value of institutional endowments						\$ 30,241,487
Total athletics-related capital expenditures						\$ 202,286

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs are an integral part of this Schedule.

NORFOLK STATE UNIVERSITY
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2020

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs have been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletics programs of the University for the year ended June 30, 2020, using the accounting methods used by the University to monitor intercollegiate athletics program activities. The Schedule includes both those revenues and expenses for athletic programs under the direct accounting control of the University and those on behalf of the University's athletics programs by outside organizations not under the University's accounting control. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in financial position or changes in cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-program specific."

2. CONTRIBUTIONS

The University received \$245,937 from the Athletics Foundation of Norfolk State University which was used for academic enhancement. The amounts received are included in the accompanying Schedule as contribution revenue. The University Athletics Program received \$161,000 in in-kind contributions from the Middle Eastern Athletic Conference and \$202,922 in other in-kind contributions recorded as in-kind revenue, and \$529,592 from sponsorships and vehicle contracts recorded as royalties, licensing, advertisement and sponsorships revenue.

3. DIRECT INSTITUTIONAL SUPPORT

The University provided direct funds to support the operations of intercollegiate athletics totaling \$1,421,585 during the fiscal year ending June 30, 2020. This amount includes \$61,534 from Federal Work-Study and \$1,360,051 from auxiliary reserves to supplement the athletic program from excess revenues collected in prior years.

4. CAPITAL ASSETS

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as parking lots, sidewalks, campus lighting, and computer network cabling systems. The University generally defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at

historical cost or estimated historical cost and donated capital assets are recorded at the acquisition value at the acquisition date.

Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	30 years
Other improvements and infrastructure	8-25 years
Equipment	2-20 years

A summary of capital asset balances for the year ending June 30, 2020 not reflected on the Schedule are as follows:

	Ending Balance June 30, 2020
Depreciable capital assets:	
Buildings	\$37,782,236
Equipment	<u>5,482,950</u>
Total depreciable capital assets	<u>43,265,186</u>
Less accumulated depreciation for:	
Building	28,204,714
Equipment	<u>2,522,387</u>
Total accumulated depreciation	<u>30,727,101</u>
Depreciable capital assets, net	<u>12,538,085</u>
Total capital assets, net	<u>\$12,538,085</u>

5. LONG-TERM DEBT

At June 30, 2020, the intercollegiate athletic program has future obligations under an installment purchase consisting of the current and long-term portions of obligations resulting from a contract used to finance the acquisition of equipment. The length of the purchase agreement is for five years and the interest rates charged are 1.565 and 2.141 percent.

Description	Interest Rate (%)	Maturity Fiscal Year End	Balance at June 30, 2020
Installments Payable:			
Master equipment lease program	1.565-2.141	2023 - 2025	\$1,787,762
Net installments payable			\$1,787,762

Long-term debt matures as follows:

Year ending	Principal	Interest
2021	\$ 509,413	\$31,931
2022	518,771	22,573
2023	385,131	13,039
2024	248,300	6,695
2025	126,147	1,350
Total	\$1,787,762	\$75,587

6. ADMINISTRATIVE COST RECOVERIES

The University recovers from each auxiliary enterprise an amount to reimburse for the cost of administrative support. For the year ended June 30, 2020, the University did not recover auxiliary support costs from the Intercollegiate Athletics department due to the significant financial impact on auxiliary enterprises caused by the COVID-19 pandemic. In accordance with the NCAA's 2020 Agreed-Upon Procedures manual, the value of these indirect costs is reported on the Schedule of Revenues and Expenses in the operating revenues line item titled Indirect Institutional Support and the operating expenses line item titled Indirect Cost Paid to the Institution by Athletics.

NORFOLK STATE UNIVERSITY

As of June 30, 2020

BOARD OF VISITORS

Joan G. Wilmer, Rector
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Mary Blunt
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UNIVERSITY OFFICIALS

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Gerald E. Hunter, Vice President for Finance and Administration
Melody Webb, Athletics Director